

Message Text

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ACTION ARA-14

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COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
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FM AMEMBASSY QUITO
TO SECSTATE WASHDC PRIORITY 7901
INFO AMEMBASSY PARIS

C O N F I D E N T I A L QUITO 2371

E.O. 11652: GDS
TAGS: EINV, EMIN, ENRG, EC
SUBJECT: PROPOSED NORTHWEST/GOE/FRENCH CONSORTIUM TO DEVELOP
GAS IN GULF OF GUAYAQUIL

1. THE EMBASSY HAS LEARNED RELIABLY THAT A GROUP OF FRENCH FIRMS HAVE MADE AN OFFER TO THE MINISTRY OF NATURAL RESOURCES TO DEVELOP THE NATURAL GAS DEPOSITS IN THE GULF OF GUAYAQUIL, WITH THE GAS TO BE PROCESSED IN AN AMMONIA/UREA FERTILIZER COMPLEX; (NOTWITHSTANDING THAT THE US FIRM NORTHWEST, WHICH NOW HOLDS THE EXPLORATION RIGHTS IN THE GULF, HAS REPEATEDLY CLAIMED AMMONIA/UREA PRODUCTION IS NOT ECONOMICALLY FEASIBLE AT PRESENT AND FORESEEABLE WORLD MARKET PRICES.)

2. IN EARLY MARCH OF THIS YEAR, THE FRENCH FIRM CFP TOTAL (THE PRIVATE FRENCH PETROLEUM COMPANY), CDF (THE STATE COAL MINES OF FRANCE COMPANY--THE LARGEST FERTILIZER SUPPLIER IN FRANCE, SECOND LARGEST IN EUROPE), AN UNNAMED SUBSIDIARY OF CDF, AND ANOTHER UNNAMED COMPANY WHICH SPECIALIZES IN PIPELINE CONSTRUCTION, PROPOSED TO THE MINISTRY A COMPLETE PACKAGE TO EXPLORE, EXPLOIT AND PROCESS THE NATURAL GAS, WITH THE RESULTANT AMMONIA/UREA PRODUCTS TO BE MARKETED BY THE CONSORTIUM. THE AMMONIA/UREA WOULD MORE LIKELY BE
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SOLD IN THE WESTERN HEMISPHERE AND JAPAN, RATHER THAN IN FRANCE OR ELSEWHERE IN EUROPE.

3. AFTER THINKING THE MATTER OVER, THE FRENCH GROUP DECIDED TO LEAVE OUT THE FRENCH PIPELINE CONSTRUCTION FIRM IN ORDER TO ALLOW NORTHWEST TO PERFORM ALL OF THE SUBCONTRACT WORK ON PIPELINE CONSTRUCTION IF NORTHWEST

SO DESIRED. A TOTAL SUBCONTRACT OF \$40 TO \$60 MILLION IS FEASIBLE. A NON-BINDING PRELIMINARY AGREEMENT WITH A PIPELINE SUBCONTRACT CLAUSE WAS SIGNED BY THE FRENCH GROUP AND THE MINISTRY ON MARCH 31.

4. THE FRENCH GROUP IS INTERESTED IN FORMING A MIXED-CAPITAL COMPANY WITH THE STATE PETROLEUM CORPORATION (CEPE). AS THE FRENCH FIRMS WISH TO MAINTAIN AS SMALL AN EQUITY POSITION AS POSSIBLE IN THE MIXED COMPANY, PARTICIPATION BY OTHER FOREIGN COMPANIES, INCLUDING NORTHWEST, WOULD BE WELCOME.

5. A REPRESENTATIVE OF THE FRENCH FIRMS ASKED THE EMBASSY TO APPROACH NORTHWEST TO ASCERTAIN ITS REACTION TO THE PROJECT. AN EMBOFF MET WITH LOCAL (ECUADOREAN REPRESENTATIVES OF NORTHWEST APRIL 11 AND BROACHED THE SUBJECT; THEY NON-COMMITTALLY SAID THEY WILL RELAY IT TO US HEADQUARTERS.

6. EMBASSY COMMENT: IT IS INTERESTING TO NOTE THAT A SERIOUS EUROPEAN ENTITY BELIEVES IT CAN PROFITABLY MARKET AMMONIA/UREA IN THE FACT OF NORTHWEST'S REPEATED CLAIMS TO THE CONTRARY. AN ARRANGEMENT AS ENVISAGED BY THE FRENCH FIRMS COULD BE A VERY OPPORTUNE FACE-SAVING MEASURE FOR BOTH NORTHWEST AND THE GOE. THE GOVERNMENT COULD RECEIVE THE INDUSTRIALIZATION PROJECT IT HAS SOUGHT CONFIDENTIAL

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ALL ALONG, AND IT COULD ALSO POINT TO ITS SUCCESSFUL NEGOTIATIONS WITH MULTINATIONAL FIRMS. NORTHWEST, WHICH HAS OFTEN SAID THAT IT DOESN'T REALLY CARE WHAT HAPPENS TO THE GAS ONCE IT IS PIPED ASHORE, COULD RECEIVE A VERY SIZABLE SUBCONTRACT IN ITS SPECIALITY AREA. THE EMBASSY WILL KEEP THE DEPARTMENT INFORMED OF DEVELOPMENTS. CORR

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